

ABERDEEN CITY COUNCIL

COMMITTEE	Finance Policy and Resources
DATE	6 May 2014
DIRECTOR	Angela Scott
TITLE OF REPORT	Geographical Weighting Allowance
REPORT NUMBER:	CG/14/049
CHECKLIST RECEIVED	Yes

1. PURPOSE OF REPORT

This paper examines some of the issues associated with geographical weighting allowances, including the methodology used in determining London weighting allowances.

2. RECOMMENDATION(S)

It is recommended that the Director of Corporate Governance (or appropriate representative) participates on behalf of the Council in a pan-public sector group which is to be established to consider the feasibility of introducing a weighting allowance and reports back on the outcomes to a future Finance Policy and Resources Committee.

3. FINANCIAL IMPLICATIONS

The full financial implication of a geographical weighting allowance cannot be calculated until an appropriate level for the allowance is set.

There will be a cost associated with carrying out the required statistical analysis.

4. OTHER IMPLICATIONS

Paying an Aberdeen Weighting Allowance may help to attract high quality applicants to jobs in the Council as well as helping to retain experienced staff.

5. BACKGROUND/MAIN ISSUES

This section is the main body of the report, and should present background and where appropriate, a business case, for your recommendations.

In his budget speech on 6th February 2014 the Council Leader instructed the Chief Executive to open discussion with the Scottish Government on how a

scheme akin to a “London weighting” could be implemented in Aberdeen and how that could be funded. The speech noted that private sector companies tend to pay a premium to staff in Aberdeen and stressed the Administration’s commitment to invest in staff.

London Weighting Allowance

London Weighting is an allowance paid to those who work in London in the Public sector. Traditionally its purpose has been to compensate London workers for the additional costs of working in the capital. In the private sector, London employees tend to be paid more than their counterparts elsewhere in the country. That extra pay may or may not be referred to as a London weighting.

In the 1974’s the Pay Board was responsible for reviewing the allowance and produced a report which standardised London Weighting in the public sector. At that time they recommended a flat rate allowance which was calculated by working out the increased costs of living and working in the London, a method referred to as direct cost compensation.

In 2002 the London Weighting Advisory Panel reviewed the allowance in light of increasing difficulties in recruitment and retention of public sector workers in London.

The report produced by the panel is quite detailed but in summary it concludes:

- Direct cost compensation has not stood the test of time. It is complex and arbitrary in calculation. It attempts to compensate for the additional costs of those who *live* in London but is paid to those who *work* in London.
- In the private sector, market forces produce the premium needed to attract employees of the right quality to jobs. The London weighting should be set by comparison with that private sector premium.
- The London weighting should be paid to all those working in London rather than singling out “key workers” as all workers are “key” if there is a need for their services.

The summary of the report is attached at Appendix 1 and the report itself is available at

<http://legacy.london.gov.uk/assembly/reports/econsd/lonweight.pdf>

Calculation Method

The analysis behind the development of the London Weighting was carried out by the University of Warwick Institute for Employment Research. They commented on two different methods of estimating the additional cost of living in London.

Specific Cost Approach

This approach attempts to quantify the additional cost of living in London by considering, for example, the additional cost of housing. Their report cites a number of previous reports including a 1996 report for the NHS and a later report (2002) by NERA (economic consultants). They conclude that the specific cost approach is very difficult, if not impossible to put into practice, in part because it is extremely difficult to separate avoidable from unavoidable costs.

General Labour Market Approach

In essence this approach is based on the idea that private sector employers are forced to offer higher wage rates to attract and retain employees of a certain quality. Measuring the additional earnings an employee requires to compensate them for the relative amenities and dis-amenities of working in a particular area then gives a measure of the appropriate level for a weighting allowance in the public sector.

This is the approach recommended by the Institute and adopted by the Advisory Panel.

The method used in establishing the recommended level of allowance involves a fairly complex statistical calculation. They analysed already existing data on the rates of pay for various jobs to establish the percentage premium paid by private sector employers to London workers. The formula used took account of age, industry and occupation amongst other things to calculate what is referred to as Standardised Spatial Wage Differentials, indicating the percentage differences in wages.

London Weighting Allowance Values

The actual values paid by employers as a London Weighting allowance are of course in no way indicative of the appropriate level for an Aberdeen Weighting Allowance. A detailed analysis of pay information appropriate to the Aberdeen area would be required before that could be determined. It may be useful however to have some indication of the levels of allowance that have been paid.

The NHS pays a High Cost Area allowance of 20% of salary for inner London, 15% of salary for outer London and 5% of salary for fringe areas with defined minimum and maximum payment in each band.

In 2009 the London weighting applied by the Health and Safety Executive was a flat rate of £3,914. At the same time the London allowance in the Probation service was £3,800 and the Local Authority Craft and Associated Employees JNC set an annual allowance for the Greater London area of £2405.

Equal Pay Implications

Any allowance paid to employees which has a disparate impact on employees has to be objectively justified. There needs to be a genuine business aim in paying the allowance.

In the case of a geographical allowance which is intended to compensate for additional costs, those costs fall equally on all of the employees living and working in that area. If the additional payment is made to all employees

working in that area then it is unlikely that there would be any risk of equal pay cases arising as a result

If the decision were taken that the payments should be targeted at particular groups of staff then it would be necessary to ensure that there was a good business reason to make that payment. If that was not the case then there would be a high risk of exposure to equal pay litigation.

Method of Payment

Where a geographical weighting allowance is paid the employer may choose to pay that as a percentage of basic pay or as a flat rate to all employees.

Defining the payment as a percentage rate means that the cash value of the allowance is greater for higher paid employees. That method may be preferable where it is particularly difficult to attract applicants to more senior posts.

Paying a flat rate allowance is preferred where there is a drive to particularly aid lower paid employees. An allowance paid in that way equates to a higher percentage of basic pay for lower paid staff.

Potential Costs

It is not possible to develop costs estimates for an Aberdeen Weighting Allowance at this stage. As yet there is no indication of the level at which any allowance might be set. It is nevertheless possible to get an idea of potential costs based on the number of full time equivalent employees in the Council.

The current staffing establishment for this Council is approximately 7140 full time equivalent staff. Using that figure allows the costs at a range of different allowance levels to be calculated as shown below.

Flat rate allowance per year	Estimated Cost
£500	£3.6 M
£1000	£7.1 M
£2000	£14.3 M
£3000	£21.4 M

These are indicative annual costs and are exclusive of any additional employer's contributions that would result.

It is clear that the potential costs of making this type of payment are very high. The Leader's budget speech asks the Chief Executive to discuss funding options with the Scottish Government and based on these indicative figures that additional funding would be likely to be required.

Potential Benefits

The potential benefits to this Council centre around recruitment and retention of staff. There is anecdotal evidence that recruitment in a number of areas is difficult as a result of higher salaries being offered in the private sector. Similarly retention of experienced staff is difficult where those employees can find more highly paid work out with the Council.

It is also reported by Managers that it can be difficult to attract candidates of the appropriate calibre with the higher quality employees being attracted to other employers who offer higher pay rates.

Paying an Aberdeen Weighting Allowance may well help to attract high quality applicants to jobs in the Council as well as helping to retain experienced staff. If that is to happen thought, the level of allowance offered would have to be high enough to make pay rates genuinely comparable with those offered in the private sector. Any form of token payment is unlikely to have a demonstrable effect on recruitment and retention.

Impact on Other Public Sector Employers

Whilst this report concentrates on the implications of a geographical weighing allowance for this Council, it is likely that such an allowance would also impact on other public sector employers in Aberdeen. Just as the Report of the London Weighting Advisory Panel provides a basis for employers in London to offer an allowance, similar information, if available for Aberdeen, could be used by other bodies to inform their own decisions on a weighting allowance.

As that is the case there may be an opportunity to work together with other bodies to quantify the level of allowance that would be appropriate. It is also understood that the Scottish Government has asked for a pan public sector group to look into the implications of a weighting allowance. That approach would allow for a co-ordinated response to this issue.

6. IMPACT

At this stage an EHRIA has not been completed. There is insufficient detail on the proposal to allow for an accurate assessment of impact.

In general terms however, the major group affected by the proposal would be current and future employees of the Council. The proposal is unlikely to have a negative impact on any protected group and would positively impact on lower paid employees.

A full Equality and Human Rights Impact Assessment will be required when the final detail of any proposal is reported to Committee.

7. MANAGEMENT OF RISK

The potential cost of a geographical weighting allowance is large and as such may impact on the ability of the City to fund services in the future. That risk may be mitigated if discussion with the Scottish Government resulted in appropriate funding arrangements.

8. BACKGROUND PAPERS

Report of the London Weighting Advisory Panel 2002

9. REPORT AUTHOR DETAILS

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**Report of the London Weighting Advisory Panel
June 2002
Summary**

We are an independent panel, appointed by the London Assembly to review London Weighting.

London Weighting is an allowance paid to those who work in London in the public sector. Traditionally its purpose has been to compensate London workers for the additional costs of working in the capital. In the private sector, London employees are, as a rule, paid more than their counterparts elsewhere in the country but this extra pay may or may not be called London Weighting. We use the expression 'London Premium' to describe this extra pay for Londoners in the private and public sectors, however it may be identified.

Our review comes at a time of increasing concern that the high cost of working in London, and in particular the high cost of housing, makes it difficult to staff essential services, because people cannot afford to live within a reasonable distance of their work. London Weighting was last reviewed by the Pay Board in 1974. That Board recommended a flat rate allowance, distinguishing between Inner and Outer London, but otherwise payable on a uniform basis across the public sector, calculated on an after-tax basis. London Weighting was calculated by working out the increased costs of living and working in the capital. We call this 'direct cost compensation'.

Our report is about London Weighting, but the evidence we received showed that there is also much to be done on affordable housing, travel costs and the problems of the lower paid. We hope that others will take these issues forward urgently.

Our main findings and recommendations are:

- There are increasing difficulties in the recruitment and retention of public sector workers in London.
- Pay levels recognising the additional expense of working in the capital would help to solve those problems.
- Pay setting in the public sector has become more decentralised and London Weighting is no longer paid on a consistent basis. Some uniformed members of the Metropolitan Police Service, for example, receive double the London Weighting for teachers, and in some branches of the Civil Service the allowance has been frozen for some years or absorbed into basic pay.
- Direct cost compensation has not stood the test of time. It is complex and arbitrary in calculation, and does not take account of all the advantages and disadvantages of living and working in London. Moreover it attempts to compensate for the additional costs of those who *live* in London, while London Weighting is paid to those who *work* in London.
- Improvements in the availability of data and in information technology enable us to approach the problem in a new way. In the private sector, negotiation and pay-setting at local level produces the premium which is needed to keep employees of the right quality in their jobs. This tells us what London Premium ought to be. So we looked at pay levels in the private and the public sectors and we asked the University of Warwick Institute for Employment Research to

calculate the London Premiums paid to those who work in London. Here is a summary:

	Public Sector	Private Sector	Private Sector Excl. City
Central London	26%	41%	37%
Inner London	24%	37%	33%
Outer London	15%	11%	11%
Greater London	20%	25%	22%

Average standardised spatial wage differentials from New Earnings Survey for 1999/2001 rounded to the nearest percentage. 'Central London' is Camden, City, Islington, Lambeth, Southwark, Tower Hamlets, and Westminster. 'Inner London' is Central London plus Kensington and Chelsea, Lewisham, Newham, Haringey, Wandsworth, Hackney and Hammersmith.

Source: National Statistics/University of Warwick Institute for Employment Research

- We recommend that London Weighting in the public sector should be set by private sector comparison, and the appropriate percentage of the total pay-bill in each occupation be made available for London Weighting. In the case of some occupations this would mean a significant increase.
- We would expect employers to argue that the City of London should be excluded from the calculations. As one of the world's leading capital markets it is a workplace like very few others. Salaries there are driven by world competition and there is very little public sector employment.
- Employers and employees in each occupation will have their preferred method of dividing the amount available for London Weighting. The traditional method is by flat rate payment, which benefits the lower paid, where it has the greatest impact. This has advantages for social justice and for the employer faced with high turnover in the lowest paid jobs. We heard evidence however that senior staff, vital to the running of London's public services, are leaving London and recommend that increased payments of London Weighting at other levels should be made, to help equalise earnings inside and outside London. So overall, we would look at flat rate payments, percentage payments, and a combination of the two.
- We recommend that employers and employees should agree their own definitions of Inner and Outer London for London Weighting purposes. The Metropolitan Police Service, for example, makes no distinction between the two zones.
- We recommend that London Premium, calculated on the private sector comparison basis, should be paid to all those working in London in the public sector. We do not believe that 'key workers' should be singled out, because we think that all workers are 'key' if there is a need for their services.
- When using private sector comparison there is scope for negotiation of different rates depending on occupation. Details are given in our report.
- Our recommendations are also relevant to employment in the recently privatised industries, where pay is administered nationally rather than set by local negotiation.
- Private sector comparison involves comparison of wages before tax, so our recommendations are not tax-free.
- We recommend that the private sector comparison studies should be repeated annually and published.
- Our report should be considered in context. It is not only pay which can attract and retain staff in London. Our report gives information about other benefits

which employers offer. Because of the high cost of travel, free travel is particularly attractive.

- We do not pretend that our recommendations will solve the problems of the first-time homebuyer. The London Assembly report on Affordable Housing made it clear that other measures, increasing the supply of housing in London, are required for that.
- Neither do we pretend that our recommendations will solve the problems of the low paid – London Weighting is only a component of pay, and the poorest do not receive it. Nevertheless, increased levels of London Weighting will assist London's resident population, who often do the lowest paid jobs.

We emphasise that our report is about relative differences in pay inside and outside London. It is not about comparing total pay package levels in the private and public sectors. If we were to do that, other factors such as job security and job satisfaction would have to be taken into account.

We fully appreciate that our proposals represent significant increases in London allowances in some occupations and they can be opposed on the grounds of cost. But, like the Pay Board in 1974, we are trying to ensure comparability of real earnings for working in London and elsewhere. Money spent on implementing our proposals will do no more than that. London will, in the end, get the workforce of the quality it pays for. We believe that calculating the London Premium for the public sector by private sector comparison is understandable and fair, and we think that, if we are to have a public sector in this country, we should pay our employees fairly.

We have no power to enforce our recommendations. Our ambition is to produce a report which will assist those who negotiate pay in London. Our report contains a great deal of information which should do that. We heard evidence that fair pay will play an important part in keeping London's workers in their jobs, where we need them to be. We hope that our report will help.